

Message Text

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 4024

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E.O. 11652: GDS

TAGS: EAID EG

SUBJECT: INFORMAL PAPER GIVEN PRIMIN SALEM RE EGYPTIAN INVESTMENT
CLIMATE

REF: PARA 6 CAIRO 4941

FOR THE DEPART'S INFORMATION, SET FORTH BELOW IS THE
TEXT OF THE EMBASSY PREPARED INFORMAL RPT INFORMAL
PAPER GIVEN TO PRIMIN MAMDOUH SALEM TODAY IN CONNECTION
WITH OUR TALK ON THE NEED TO STRENGTHEN THE INVESTMENT
CLIMATE IN EGYPT, IF THE "OPEN DOOR" POLICY IS TO SUCCEED.

QUOTE

COMMENTS ON THE INVESTMENT CLIMATE

1. LAW 43 UNREALISTICALLY STIPULATES THAT FOREIGN CAPTIAL MUST
ENTER AT THE OFFICIAL RATE OF EXCHANGE. THE POSSIBILITY THAT
EGYPT WILL EVENTUALLY EXPAND THE USE OF THE PARALLEL RATE
TO INCLUDE ALL BUT A FEW OFFICIAL TRANSACTIONS, AS IS
CURRENTLY RUMORED, HAS CAUSED SOME INVESTORS TO POSTPONE
INVESTMENT DECISIONS SINCE A LOSS OF UP TO 50 PERCENT
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WOULD RESULT AT THE TIME OF REPATRIATION.

2. DOUBTS ABOUT THE AVAILABILITY OF FOREIGN EXCHANGE, AND THE POSSIBILITY THAT THE PARALLEL RATE WILL BE APPLIED FOR PURCHASES, HAVE EFFECTIVELY ELIMINATED CONSIDERATION OF INVESTMENT IN USEFUL AND PRODUCTIVE PROJECTS THAT DO NOT HAVE EXPORT POTENTIAL.

3. THE REQUIREMENT THAT AN EXPORT-ORIENTED PROJECT MUST GENERATE ALL OF ITS OWN FOREIGN EXCHANGE REQUIREMENTS, INCLUDING PROFIT REMITTANCES, IS BOTH SHORT-SIGHTED AND EXCESSIVELY RESTRICTIVE.

4. THE LAW AND THE REGULATIONS LEAVE NUMEROUS POINTS OF CONSIDERABLE SIGNIFICANCE TO POTENTIAL INVESTORS TO BE NEGOTIATED ON AN INDIVIDUAL AND AD HOC BASIS. THIS RESULTS IN UNNECESSARY CONFUSION AND, OF GREATER CONSEQUENCE, TIME-CONSUMING DELAYS IN WAITING FOR THE BUREAUCRACY TO REACH DECISIONS. A NUMBER OF PROPOSALS HAVE BEEN ABANDONED SIMPLY BECAUSE INVESTORS RAN OUT OF PATIENCE WAITING FOR APPROVALS.

5. BOTH THE LAW AND THE REGULATIONS ARE UNDULY RESTRICTIVE. WHILE THEY DO NOT SAY ENOUGH ABOUT WHAT IS PERMITTED (POINT 4 ABOVE) THEY SAY TOO MUCH ABOUT WHAT IS NOT. SINCE THEIR PURPOSE IS TO ENCOURAGE INVESTMENT AND THE DEVELOPMENT OF THE ECONOMY, THEY MUST BE AS LIBERAL AS POSSIBLE IN KEEPING WITH EGYPTIAN NATIONAL INTERESTS.

6. THE INTENT OF THE OPEN DOOR IS TO MAXIMIZE THE OVERALL BENEFIT TO THE EGYPTIAN PEOPLE. EXCESSIVE CONCERN WITH PERIPHERAL MATTERS, SUCH AS TAX REVENUES FROM COMPANY PROFITS AND EXPATRIATE SALARIES, OVERLOOKS THIS POINT AND CREATES NEEDLESS OBSTACLES TO INVESTMENT.

UNQUOTE

THE PRIME MINISTER EXPRESSED HIS APPRECIATION FOR THE PAPER AND SAID IT WILL BE USEFUL TO HIM IN CONSIDERING AMENDMENTS TO THE INVESTMENT LAW.
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